

## Message Text

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ACTION EA-12

INFO OCT-01 IO-13 ISO-00 SP-02 ICA-11 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 L-03  
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XMB-02 OPIC-03 LAB-04 SIL-01 ITC-01 EUR-12 /122 W  
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R 230532Z MAY 78

FM AMEMBASSY KUALA LUMPUR  
TO SECSTATE WASHDC 4333  
INFO AMEMBASSY BANGKOK  
AMEMBASSY JAKARTA  
AMEMBASSY MANILA  
AMEMBASSY SINGAPORE  
USMISSION GENEVA

CONFIDENTIAL KUALA LUMPUR 4422

USMTN

E. O. 11652: GDS  
SUBJ: AMBASSADOR'S CALL ON DEPUTY MINISTER OF TRADE AND INDUSTRY;  
THE ICAN AND THE MTN

1. SUMMARY. DURING CALL BY AMBASSADOR, DEPUTY MINISTER LEW SIP HAN EMPHASIZED GOM'S DESIRE TO ATTRACT FOREIGN INVESTMENT. HE SAID IMPLEMENTATION OF ICA WAS NOW MORE FLEXIBLE, AND MENTIONED SEVERAL SPECIFIC AREAS WHERE THE GOM HAD EASED IT'S REQUIREMENTS. HE ALSO EXPRESSED SATISFACTION AT THE WAY THE MTN IS GOING. HE SAID MALAYSIA WILL TRY TO BE RESPONSIVE TO THE US REQUESTS. END SUMMARY.

2. AS PART OF HIS ROUND OF CALLS IN ANTICIPATION OF WASHINGTON CONSULATIONS, THE AMBASSADOR SAW DATUK LEW SIP HON, DEPUTY MINISTER OF TRADE AND INDUSTRY. (THE MINISTER AND DEPUTY PRIME MINISTER, DATUK SERI MAHATHIR, IS IN LONDON LEADING AN INVESTMENT MISSION WHICH WILL ALSO GO TO FRANCE, GERMANY AND DENMARK.) THE AMBASSADOR ASKED DATUK LEW'S APPRAISAL OF THE CURRENT STATE OF CONFIDENTIAL

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FOREIGN INVESTMENT IN MALAYSIA AND HOW THE INDUSTRIAL COORDINATION ACT IS IMPACTING ON IT. DATUK LEW SAID THE PURPOSE OF DR. MAHATHIR'S INVESTMENT MISSIONS IS TO DISPEL FEAR OF THE ICA ON THE PART OF POTENTIAL FOREIGN INVESTORS AND TO MAKE IT CLEAR THAT THE GOM WELCOMES FOREIGN INVESTMENT. HE SAID, "IF THERE HAD BEEN ANY RIGIDITIES IN THE IMPLEMENTATION OF THE ICA, WE (THE NEW LEADERSHIP IN THE MINISTRY OF TRADE AND INDUSTRY) ARE

TRYING TO DO AWAY WITH THEM." HE SAID THE MINISTRY HAD BECOME QUITE FLEXIBLE, ESPECIALLY WITH REGARD TO THE ICA'S EQUITY REQUIREMENTS. FOR EXAMPLE, IF A POTENTIAL INVESTMENT IS EXPORT ORIENTED, I.E., 80 PER CENT OR MORE OF ITS PRODUCTION INTENDED FOR EXPORT, THE GOM CAN ALLOW THE FOREIGN INVESTOR TO OWN 100 PERCENT. ANOTHER AREA OF FLEXIBILITY PERTAINS TO CASES WHERE AN INVESTOR IS UNABLE TO FIND A BUMIPUTRA PARTNER. IN THAT CASE, HE CAN GO AHEAD AND MAKE HIS INVESTMENT AND IS ONLY REQUIRED TO FIND THE NECESSARY PARTNER BY 1990, THE TARGET DATE FOR ACHIEVEMENT OF THE NEW ECONOMIC POLICY.

3. THE AMBASSADOR ASKED HOW THE ICA AFFECTED ESTABLISHED COMPANIES. DATUK LEW SAID FOREIGN INVESTMENTS MADE BEFORE THE ENACTMENT OF THE ICA WERE NOT SUBJECT TO ITS EQUITY PROVISIONS. IF THEY WISH TO EXPAND HOWEVER, THE NEW INVESTMENT WOULD BE SUBJECT TO THOSE PROVISIONS.

4. REGARDING THE PROSPECTS FOR FUTURE FOREIGN INVESTMENT, DATUK LEW SAID THE TEMPO IS DICTATED BY WORLD ECONOMIC CONDITIONS. IN 1976 AND 1977 THE RECESSION IN MOST OF THE COUNTRIES CONTAINING POTENTIAL INVESTORS HAD CAUSED A SLOWDOWN IN INVESTMENT IN MALAYSIA. THIS WAS A WORLDWIDE TREND, AND WAS NOT CAUSED BY THE ICA. ON THE OTHER HAND, HE BELIEVED THE FUTURE TO BE BRIGHT. THE JAPANESE INTEND TO RELOCATE A CONSIDERABLE AMOUNT OF THEIR INDUSTRY OFF SHORE AND ARE LOOKING AT MALAYSIA AND THE OTHER ASEAN MEMBERS. AS FOR THE UNITED STATES, DATUK LEW THOUGHT THERE IS SCOPE FOR COMPANIES TO MAKE USE OF MALAYSIAN LABOR. HE POINTED OUT THAT A SUBSTANTIAL NUMBER OF THE AMERICAN

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ELECTRONICS PLANTS HERE ARE EXPANDING, AND THE GOM HOPES FOR MORE. THE AMBASSADOR ASKED WHETHER ANY OF THESE PLANTS WERE ENCOUNTERING DIFFICULTY FINDING SKILLED LABOR. DATUK LEW SAID THIS IS NOT A PROBLEM AS FACTORY JOBS ARE MORE DESIRABLE THAN RURAL EMPLOYMENT, AND THERE ARE PLENTY OF PEOPLE COMING INTO THE CITIES IN ORDER TO WORK IN THE FACTORIES.

5. THE AMBASSADOR ASKED FOR DATUK LEW'S VIEWS REGARDING THE CURRENT STATUS OF THE MTN. DATUK LEW SAID THAT ALTHOUGH THE BULK OF MALAYSIAN EXPORTS TO THE UNITED STATES (70 PER CENT) ARE STILL PRIMARY COMMODITIES, MALAYSIAN SEMIMANUFACTURED AND LIGHT MANUFACTURED GOODS ARE BEGINNING TO FIND MARKETS IN THE UNITED STATES

THESE ENCOUNTER SOME TARIFFS AND MALAYSIA HOPES TO LOWER THEM IN THE MTN. IN GENERAL TERMS, DATUK LEW SAID THAT HE WAS REASONABLY HAPPY WITH THE WAY THE MTN WAS GOING. HE SAID THAT THE MALAYSIAN GOVERNMENT WAS TRYING TO ACCEDE TO SOME OF THE US REQUESTS. IT IS CLOSELY EXAMINING THEM TO SEE WHAT IT CAN DO.

6. COMMENT THE DEPUTY MINISTER APPEARED MUCH MORE AWARE OF THE CURRENT DETAILS AND ISSUES PERTAINING TO THE ICA THAN TO THE MTN. OUR INITIAL CONCLUSION FROM THIS DISCUSSION IS

THAT ONE OF HIS PRIMARY RESPONSIBILITIES IS TO OVERSEE THE LIBERALIZATION OF THE ICA IN A WAY THAT WILL PLACATE HIS CHINESE CONSTITUENCY.

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